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FISCAL IMPACT STATEMENT

LS 6016 | **NOTE PREPARED:** Mar 22, 2007
BILL NUMBER: SB 128 | **BILL AMENDED:** Mar 20, 2007

SUBJECT: Pensions.

FIRST AUTHOR: Sen. Young R Michael | **BILL STATUS:** As Passed House
FIRST SPONSOR: Rep. Tyler

FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill:

(1) allows a participant in the State Excise Police, Gaming Agent, and Conservation Enforcement Officers' Retirement Plan (Plan) to receive creditable service for the time a plan participant receives benefits under the state's long-term disability plan;
(2) allows a plan participant to purchase service credit for service earned in the Public Employees' Retirement Fund (PERF), the Indiana State Teachers' Retirement Fund (TRF), the State Police Pension Trust, or the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund);
(3) increases the plan participant's contribution from 3% of the first $8,500 to 4% of the participant's annual salary; (4) authorizes an employer to pay all or a part of the plan participant's contribution;
(5) increases from 1% to 1 2/3% the percentage of average salary used in computing a plan participant's annual retirement allowance for years of service greater than 25;
(6) allows a plan participant who is at least 50 years of age and has at least 25 years of creditable service to retire with a normal (unreduced) benefit;
(7) provides that a plan participant receiving a line-of-duty disability benefit is entitled: (A) to receive a disability benefit for the remainder of the participant's life; and (B) to have the benefit recomputed as a normal benefit when the participant becomes 60 years of age;
(8) strongly encourages the PERF and TRF Boards to employ investment managers that are minority business enterprises and investment managers that are women-owned business enterprises;
(9) specifies that 15% of the assets of each fund must be placed under the investment control of investment managers that are minority business enterprises and 5% of the assets of each fund must be placed under the investment control of investment managers that are women-owned business enterprises;
(10) increases the minimum monthly disability retirement benefit paid to certain PERF or TRF members from

$100 to $180, and provides that a distribution of a thirteenth check by PERF or TRF must include distribution to members eligible for disability benefits;
(11) authorizes the transfer from the 1977 Fund to PERF of service credit and contributions for certain appointed police and fire chiefs and waives all credit for the service in the 1977 Fund if the transfer to PERF is made;
(12) allows an employee beneficiary (excluding a sheriff) to authorize the trustee of a sheriff's pension trust to pay a portion of the employee beneficiary's monthly pension benefit to an insurance provider for the payment of accident, health, or long term care insurance premiums for the employee beneficiary, the employee beneficiary's spouse, or the employee beneficiary's dependents; and
(13) extends the pilot program for the Defined Contribution Plan of the Legislators' Retirement System until July 1, 2010. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: (Amended) January 1, 2007 (retroactive); July 1, 2007.

Explanation of State Expenditures: (Revised) *Excise Police, Gaming Agent, and Conservation Enforcement Officers' Retirement Fund:* The total estimated impact from the changes to the State Excise Police, Gaming Agent, and Conservation Enforcement Officers' Retirement Fund is a net increase in annual expenditures of $42,000, representing a 0.3% increase in annual funding as a percent of payroll, and an increase in unfunded accrued liability of $4.52 M.

The estimated impact on the retirement fund for each of the proposed changes is listed in the table below.

	Increase employee contribution 4% all Salary (1)	Increase salary % from 1% to 1 2/3% over 25 years of salary (2)	Age 50/25 yrs of service/normal retirement no reduction (3)	Additional Service while on Disability (4)	Total Impact
Estimated Increase in Unfunded Accrued Liability	0	$3,370,000	$715,000	$286,000	$4,520,000
Estimated Increase in Employer Annual Funding	($460,000)	$330,000	$80,000	$32,000	$42,000
Estimated Increase in Annual Funding as a % of payroll	(3.4%)	2.5%	0.6%	0.3%	0.3%
Change in Funded Status	No Change at 69.5%	Decrease from 69.5% to 66.0%	Decrease from 69.5% to 68.9%	Decrease from 69.5% to 69.4%	Decrease- 69.5% to 64.8%

Authorizing the employer to pay part or all of the participant's contribution will have an indeterminable impact and will depend the action taken by the employer. The funds affected for this entire proposal are the state General Fund, the Fish and Wildlife Fund, and the Enforcement Fund.

Background on Purchase of Service Credit - The cost to purchase service credit for service earned in PERF, TRF, the State Police Pension Trust, or the 1977 Police and Fire Fund for any participant will approximate the actuarial present value of the benefit attributable to the service credit purchased. Any increase in liability as a result of such a purchase of service would be offset by an equal increase in assets from the actual purchase of service. Therefore, the cost to purchase service credit under this proposal should be actuarially neutral to the fund. It should be noted that the proposal does not recognize any additional liability due to the purchased service until the purchase has been 100% completed. This provision can result in increased future payouts from the funds listed in certain situations, as described below.

The bill provides that the purchase of service credits by a participant must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member may wish to purchase service credit and the potential impact to the funds are identified below.

If a member wants to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the fund. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the fund.

If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary at the time of purchase before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

(8) strongly encouraging the PERF and TRF Boards to employ investment managers that are minority business enterprises and investment managers that are women-owned business enterprises and (9) specifying that 15% of the assets of each fund must be placed under the investment control of investment managers that are minority business enterprises and 5% of the assets of each fund must be placed under the investment control of investment managers that are women-owned business enterprises will have the following impact:

(Revised) *Investment Managers for PERF and TRF:* The market value of the TRF investments totaled $5.178 B. Minority businesses currently manage $504 M in assets, representing 9.7% of the total, and women-owned business enterprises manage $118 M in assets, representing 2.3% of the total . In order to reach goals specified in the bill, MBEs would need to be allocated an additional $273 M (an additional 5.3%) and WBEs would need to be allocated an additional $141 M (an additional 2.7%).

As of October 31, 2006, the market value of the Consolidated Retirement Investment Fund (CRIF) for PERF totaled $14.618 B. PERF's exposure to Minority Women Business Enterprise (MWBE) managers amounted to $354 M, or 2.5% of the total. Currently, PERF's listing encompasses both minority business enterprises and women-owned business enterprises under the listing of MWBE. In order to reach the goals specified in the bill (i.e., a total of 20% of the funds under PERF's management), the MWBEs would need to be allocated an additional $2.570 B (an additional 17.5%).

(Revised) *Minimum Monthly Disability Retirement Benefit:* Increasing the minimum monthly disability retirement benefit paid to certain PERF or TRF members from $100 to $180, and providing that a distribution of a thirteenth check by PERF or TRF must include distribution to members eligible for disability benefits will have the following impact. There are an estimated 125 former PERF members receiving disability benefits at the current monthly $100 amount that would be affected by this proposal.

Public Employees' Retirement Fund			
	State	**Municipalities**	**Total**
Increase in Unfunded Accrued Liability	$235,100	$155,100	$390,200
Increase in Annual Cost	$99,500	$283,400	$382,900
Increase in Annual Cost as % of Payroll	0.006%	0.011%	0.009%

There would be no change in funded status, remaining at 97.6%. The funds affected are the state General Fund (55%), or $54,725, and various dedicated funds (45%), or $44,775. The percentage split represents the amounts each fund contributes to personal services in the state budget.

Teachers' Retirement Fund					
	Increase in PVB*	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**
Pre-1996 Fund	$47,416	$2,159	$4,521	$4,629	$4,674
1996 Fund	$37,705	$1,681	$3,815	$4,309	$4,834
Total	$85,121	$3,840	$8,336	$8,938	$9,508
*Present Value of Future Benefits.					

The COLA adjustments effective January 1, 2007, pursuant to IC 5-10.2-5-41, were taken into account prior to estimating the fiscal impact of the proposed increase to the minimum alternative disability benefit.

The fund affected is the state General Fund for the Pre-1996 Fund. The 1996 Fund is actuarially funded by a level percent of payroll, currently 7%. That percent is unlikely to change because of the provisions of this bill.

Explanation of State Revenues:

Explanation of Local Expenditures: *Transfers from the 1977 Fund to PERF:* Authorizing the transfer from the 1977 Fund to PERF of service credit and contributions for certain appointed police and fire chiefs and waives all credit for the service in the 1977 Fund if the transfer to PERF is made will have the following impact. PERF has identified four police chiefs and no fire chiefs who would currently be affected by this proposal. That is, they would not be able to earn a benefit under the 1977 Fund because of mandatory retirement provisions in effect. In addition, however, the bill permits a police chief or a fire chief appointed under a waiver at any age who terminates employment before earning a benefit from the 1977 Fund to transfer the 1977 Fund service to PERF. The fiscal impact would be minimal.

(Revised) *Authorization for Trustee of Pension Trust:* Allowing an employee beneficiary (excluding a sheriff) to authorize the trustee of a sheriff's pension trust to pay a portion of the employee beneficiary's monthly pension benefit to an insurance provider for the payment of accident, health, or long term care insurance premiums for the employee beneficiary, the employee beneficiary's spouse, or the employee beneficiary's dependents may increase administrative expenditures for sheriff's pension trusts. The actuary for many of the sheriff pension trusts has said that several counties already provide this service.

(Revised) *Pilot Program for the Legislators' Defined Contribution Plan:* The bill extends the pilot program for the Defined Contribution Plan of the Legislators' Retirement System until July 1, 2010. Currently, PERF, administrator of the Defined Contribution Plan of the Legislators' Retirement System, spends approximately $13,800 annually for the record keeper for the plan. The fund affected is the PERF Administrative Fund.

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund as administrators of the 1977 Fund and the Defined Contribution Plan of the Legislators' Retirement System; Gaming Commission; Alcohol Tobacco Commission (Excise Police); Department of Natural Resources.

Local Agencies Affected: Those with members in the 1977 Fund; Sheriff's pension plans.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF and the Police and Fire Fund, 317-576-1508; Colonel Tom Parker, administrator of the Defined Contribution Plan of the Legislators' Retirement System at PERF, 317-233-4146.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Funding - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Funded Status- The ratio of assets of a pension plan to its liabilities.